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NEWSLETTER

Supreme Court Reshapes Fee Shifting in Patent Infringement Cases

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On April 29, 2014, the Supreme Court issued two decisions that may result in more prevailing parties in patent infringement cases recovering their attorney's fees. In *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, the Court stated that fees may be awarded in any case that, in the eyes of the district court judge, "stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." Awarding attorney's fees is thus a "case-by-case exercise of [district court] discretion, considering the totality of the circumstances." However, exceptional case determinations should still be the exception to the norm. Following on its decision in *Octane Fitness*, in *Highmark Inc. v. Allcare Health Management System, Inc.*, the Court overturned the Federal Circuit's *de novo* review standard and held that a district court's decision to award prevailing party fees would be reviewed for an abuse of discretion.

The Patent Act's fee shifting statute, 35 U.S.C. § 285, requires only that a case be "exceptional" for a prevailing party to be awarded its attorney's fees. Within the last decade, however, the Federal Circuit had limited "exceptional" cases to those where there had been "material inappropriate conduct related to the matter in litigation" or where the litigation was "brought in subjective bad faith" and "objectively baseless." In addition to limiting the types of cases in which fees could be recovered, the Federal Circuit also required the prevailing party to establish the exceptional nature of the case by clear and convincing evidence. *See Brooks Furniture Mfg., Inc. v. Dutalier Int'l, Inc.*, 393 F.3d 1378 (2005).

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A near-unanimous Court (with only Justice Scalia declining to join three footnotes discussing the legislative history of § 285) rejected *Brooks Furniture* in *Octane Fitness*, citing the plain and ordinary meaning of the term "exceptional" as meaning "uncommon," "rare," or "not ordinary." Under *Octane Fitness*, it is left to the discretion of the trial court to consider "the totality of the circumstances" and determine whether a case is "exceptional" on a case-by-case basis, keeping in mind that an "exceptional" case is, by definition, not the norm.

In expanding the scope of cases in which fee shifting is appropriate, the Supreme Court concluded that there is no requirement that the losing party's conduct be "independently sanctionable" to be found "exceptional." Indeed, it can be sufficient that a case be brought in "subjective bad faith" or present "exceptionally meritless claims." Nor is there any particular evidentiary burden that the prevailing party must carry in order to receive an award of attorney's fees.

The Court's *Octane Fitness* decision paved the way for the unanimous result in *Highmark*. Under *Brooks Furniture*, the Federal Circuit reviewed a district court's conclusions regarding the "objectively baseless" prong *de novo*. Because *Octane Fitness* commits the entire exceptional case determination to the trial court's discretion and does away with the two-pronged *Brooks Furniture* standard, however, *Highmark* holds that these determinations are to be reviewed for an abuse of discretion.

Taken together, *Octane Fitness* and *Highmark* expand the universe of cases in which prevailing parties can be awarded their fees and reduce the likelihood that such awards will be reversed on appeal. As such, they may present a disincentive to suits by non-practicing entities that are filed for the sole purpose of extracting settlements based on the cost of defense. *Octane Fitness* and *Highmark* also reflect the Supreme Court's increased focus on patent jurisprudence – oral argument in *Nautilus, Inc. v. Biosig Instruments, Inc.* (claim indefiniteness) and *Limelight Networks, Inc. v. Akamai Techs., Inc.* (joint induced infringement) occurs this week, while a decision in *Alice Corp. Pty Ltd. v. CLS Bank Intern.* (patent eligibility under 35 U.S.C. § 101) is expected before this summer.

Editor's Note: Wiley Rein participated in the *Highmark* case, representing the Blue Cross Blue Shield Association as an amici in support of Highmark at both the certiorari and merits stages.